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SUBJECT: TURKEY AS THE HUB IN THE EAST-WEST ENERGY CORRIDOR
- BTC ON TRACK

REF: A. ANKARA 4892

- [1](#)B. ANKARA 4623
- [1](#)C. ANKARA 4443
- [1](#)D. ISTANBUL 1484
- [1](#)E. ANKARA 4421

Sensitive But Unclassified. Please Handle Accordingly.

[1](#)1. SUMMARY: (SBU) The centerpiece of Turkey's growing role as hub in the East-West Corridor, the Baku-Tbilisi-Ceyhan (BTC) pipeline, is broadly on track and nearing completion. Government of Turkey (GOT) Officials and BTC company officials assert that BTC is on track at 80 percent complete for mid 2005 oil flow at the Ceyhan terminus. GOT has still not delivered permits on potential Bosphorus bypass projects, but appears to favor Samsun-Ceyhan or expansion of BTC. Turkey's pipeline company BOTAS is scrambling to build domestic natural gas pipelines to provide for consumption needs while facing an overhang of excess supply from take-or-pay contracts. BOTAS' privatization of purchase contracts faces internal opposition and has been delayed. While dealing with the near-term surfeit of natural gas by renegotiating terms with Russia and starting links to Greece, GOT and BOTAS are working on grander prospects of transiting gas to Europe (which would ultimately require additional supply contracts). End Summary.

BTC on track in Turkey

[1](#)2. (SBU) GOT and BOTAS officials at all levels (including Minister Guler to Secretary Abraham reported septel) assert that the Baku-Tbilisi-Ceyhan (BTC) oil pipeline is 80 percent complete and on track for mid 2005 oil flow at Ceyhan. When pressed, officials note that construction in Turkey is "a little" behind, but assert that BOTAS has resolved problems contributing to past delays to bring construction broadly on schedule. According to GOT officials, BOTAS (Turkey's pipeline company and responsible for construction in Turkey) took more direct control over three subcontractor segments in Turkey and now only about 120 miles of Turkey's 620 miles of pipeline remain to be welded. GOT and BTC officials note that some questions linger about timely completion of pumping station A in Turkey, which requires a gas spur for provision of power, but insist that there is suitable contingency planning to assure that this will not delay oil flow. Officials project substantial completion by the beginning of 2005, followed by testing and three months to fill the pipeline. BTC Officials note that filling could be expedited by filling from both ends (assuming oil flow from the infrequently functioning Iraq oil pipeline to Ceyhan).

[1](#)3. (SBU) GOT and BTC officials note the need for all interested parties to remain vigilant for continued and timely construction in Georgia, where a work-stoppage occurred in July and related discussions on pipeline security in the environmentally sensitive Borjomi region continue. Officials report no significant construction problems in Azerbaijan. BTC celebrations are targetted for around May in Baku and sometime thereafter in Ceyhan.

Movement on Bosphorus By-passes - Concerns about Trans-Thrace

[1](#)4. (SBU) GOT officials proudly point at BTC as achievement of the first "Bosphorus Bypass", although technically it does not displace any oil currently transitting the Bosphorus. With BTC near completion, GOT officials now express commitment to facilitating the (next) Bosphorus Bypass(es). GOT officials say they fully share USG principles that realization of a bypass project be transparently based on commercial feasibility and chosen by the market. They agree with the principle of timely provision of conditional licenses to facilitate companies securing through-put and financing. However, in effect, the GOT has not been able to reach internal agreement on route and environment issues in respect to 4-5 applications for 2 routes solely within Turkey, so the permit process remains stuck in the Council of Ministers. There are two Trans-Thrace routes: 1) Thrace

Development Company (American Howard Lowe advocacy request; Kazakh interests) applied June 2003 and 2) Anadolu Construction/ Okan Tapan/ Transneft "copycat" route applied June 2004. There is one serious Samsun-Ceyhan route sponsored by Turkish Calik Energy with some participation by American Universal Ensco. Reftels A-C provide background on these projects.

15. (SBU) In response to the Thrace advocacy request, USG has continuously emphasized that Thrace deserves a timely answer to its thorough and long-standing application. GOT officials have expressed strong concerns about environmental issues raised by the Trans-Thrace projects, appearing to favor Samsun-Ceyhan as less environmentally problematic and able to use existing deep-water port structure at Ceyhan. In Embassy Officers' most recent meetings, GOT officials have spoken in favor of expanding capacity at BTC as a preferable option (although this may not work as a near-term solution). BP officials have estimated that the one million b/d capacity could be increased to 1.2 million b/d with use of drag reducing agent; 1.4 million b/d with larger pumps; and 2.0 million b/d with investment in three additional pumping stations. Per septel USG has encouraged GOT to reinforce our message to Kazakhstan and Azerbaijan to move forward on realizing the Aktau spur from Kazakhstan to provide incremental oil.

16. (SBU) Per Ref A Embassy officials at multiple levels, including the Ambassador, voiced USG objections to the GOT on the proposed "Voluntary Principles" on Bosphorus Bypass. Although expressing admiration for the creative public/private partnership concept of getting multiple players together to engage the dilemma, the USG objected to the commercially proscriptive approach and the (to date) lack of engagement of the Russians. ChevronTexaco and others have stressed the need for a separate and parallel approach to emphasis on best practices on maritime safety. The MFA author of the "Voluntary Principles", Hakkı Akil, will be posted as Ambassador to Turkmenistan, so it is not clear what and when the next step will be. The GOT sought to engage the Russians, but have not officially included them yet. BP has told Embassy Officials that the company is supportive of the Voluntary Principles (noting that BP is potentially temporarily exacerbating the problem with TNK-BP involvement in Odessa-Brody reversal schemes and serious oil/gas exploration in the Black Sea). Embassy understands that some companies met recently in London with ChevronTexaco to evaluate Bosphorus Bypass proposals, which is a positive sign of movement and commercial attention to the issue. To date, none of the Turkey proposals has direct involvement or commitment from a serious oil shipper. The Samsun-Ceyhan proposal (like all of them) claim to have serious interest from a number of shippers.

17. (SBU) Istanbul Ref D reports on a BP's mariner advisor's tanker voyage in January 2004, experiencing first-hand the costs and risks of delays in the Turkish Straits due to bad weather. While noting that in good weather the Bosphorus and Dardanelles passage is not that difficult, given one-way passage, the mariner offers a number of suggestions to optimize passage and increase safety. He spoke highly of the new Vessel Transit System (VTS) and the captains that board the big tankers for strait passage. He perceived that the concentrated anchorage practice for waiting ships (particularly in bad weather; his was among 70 waiting tankers at each end of the Dardanelles) posed a much greatest risk (safety and security) than individual tanker transit through the Bosphorus and Dardanelles. The mariner estimated that companies faced a cost of 300-700 million usd from last winter's delays, including the shut-down of a Caspian platform.

The Coming Great Game is Natural Gas - But not from Iran

18. (SBU) Turkey officials express strong commitment to realizing the next big step in Turkey's role as hub in the East-West Energy Corridor: natural gas. GOT officials have regularly expressed priority commitment to facilitating transit of gas from the Caspian. Construction on the South Caucasus (Baku-Tbilisi-Erzurum) gas pipeline to parallel the BTC pipeline from Shah Deniz will begin next year for 2006/07 delivery (Turkey is to construct the Turkish portion). In the short to medium term, Turkey faces a significant surplus of natural gas from take-or-pay contracts from Russia and Iran and LNG from Algeria and Nigeria (up to 15 billion USD over 2005-2015 per the GOT, noting that earlier demand forecasts have been scaled back). Turkey's biggest supplier is Russia (older lines via Bulgaria and controversial newer Blue Stream) which currently supplies 60 percent of Turkey's gas. Turkey has addressed its surfeit of natural gas by: 1) renegotiating its Blue Stream contract with Russia; 2) attempting, without success, to gain a comparable renegotiated deal with Iran; 3) BOTAS scrambling to expand the domestic network and storage capacity, some by privatization tenders, and some gaining Russian interest; and

4) gaining an export agreement with Greece, in combination with longer-term hopes to supply significant gas to Europe (Nabucco-Austria one possibility). While managing its short and medium term exposure to a excess supply of gas, in the longer term Turkey has to jockey for additional gas from the Caspian and Central Asia (Shah Deniz 2, Turkmenistan, Iraq, etc.).

9. (SBU) In response to the USG's repeated message to resist Iran, Turkey has said that its near-term priority remains the Caspian, but longer term, Turkey cannot impede big demand from Europe and huge supply from Iran (and direct negotiation between the two). GOT officials have described Iran as a hard bargainer, entirely resistant to budging on their take-or-pay contract terms, and wholly focused on securing a long-term contract to transit gas to Europe. These discussions failed at the time of PM Erdogan's trip to Teheran in early August. Most recently, the Iranian parliament passed a law which could prevent two Turkish investments in Iran and President Khatami cancelled a visit to Turkey. Turkcell had reportedly gained a private mobile phone license and a Turkish/Austrian consortium, TAV, had gained rights to operate Teheran airport; however, Iranian hardliners, citing national security reasons, have put the deals on hold (ref e). GOT officials have asked for USG help on securing incremental gas from alternative sources like Azerbaijan, Turkmenistan, and Iraq to provision European demand.

10. (SBU) Turkey energy sector liberalization has faced delays. BOTAS liberalization of purchase contracts faces internal opposition and has been delayed. According to BOTAS officials Russian and other contract providers will not agree to transfer of contracts (looking to GOT as sovereign guarantor and issues of confidentiality of contract terms). While some progress on privatization of the domestic natural gas network is underway and could facilitate growth and satisfaction of domestic demand; there may be a perception on the part of the GOT that BOTAS and TPAO (the Turkish oil company) should remain in state hands and strong to be able to compete internationally with Russian and other foreign players. On the other hand, GOT's attempt to privatize the state refinery company TUPRAS, which gained a viable tender offer from a consortium led by Tatneft, is now tied up in the legal system. Russian firm Gazprom has reportedly shown interest in investing in Turkey's domestic distribution networks. Turkey's challenge will be to make progress on liberalization, while not ceding control to monopolistic tendencies in Russia.

11. (SBU) Comment: Embassy will continue to closely engage with the GOT on realization of the mutually endorsed dream of Turkey as East-West Energy Corridor Hub. In order to emphasize East-West, and to avoid Iran and over reliance on Russia, coordinated and reinforcing engagement with opportunities in Turkmenistan, Kazakhstan, Iraq, and others will be necessary in promoting transit of oil and gas. In the short-term, close dialogue and engagement between all interested parties will be necessary to resolve the problem of growing congestion in the Bosphorus Straits. In the meantime, we will work with companies and the GOT to encourage maximizing safe passage; unfortunately, GOT does not have sufficient incentives now to do this. While the BTC is happily near completion, continued attention is required to assure timely oil flow. It ain't over until it's over.
End Comment.
EDELMAN